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9 **UNITED STATES DISTRICT COURT**
10 **SOUTHERN DISTRICT OF CALIFORNIA**

11
12 SECURITIES AND EXCHANGE
13 COMMISSION,

14 Plaintiff,

15 v.

16 TOTAL WEALTH
MANAGEMENT, INC. *et al.*,

17 Defendant.
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Case No. 15-cv-226-BAS-RNB

ORDER:

(1) **GRANTING IN PART AND
DENYING IN PART THE
RECEIVER'S AND
PLAINTIFF'S JOINT
MOTION FOR AN ORDER
AWARDING SETTLEMENT
FUNDS TO RECEIVER
(ECF No. 208);**

(2) **DENYING DEFENDANT
JACOB COOPER'S MOTION
FOR AN ORDER
AWARDING SETTLEMENT
FUNDS TO COOPER
(ECF No. 215);**

AND

(3) **DENYING COOPER'S
MOTION TO STRIKE
PORTIONS OF THE
DECLARATION OF
RECEIVER THOMAS A.
SEAMAN
(ECF No. 215)**

1 Plaintiff Securities and Exchange Commission (“SEC”) and Receiver Thomas
2 A. Seaman (the “Receiver”)¹ jointly move for the Court to award proceeds to the
3 Receiver from two court-approved, confidential settlements entered into by and
4 between the Receiver and Defendant Jacob Cooper in connection with two state court
5 actions, *Seaman v. Lively*, No. 37-16-00003644-CU-PN-CTL (the “Receiver
6 Malpractice Action”) and *Cooper v. Jacko*, No. 27-2015-00038876-CU-PN-CTL
7 (the “Cooper Malpractice Action”). Defendant Jacob Cooper opposes the motion
8 and moves for the Court to award all proceeds to him. (ECF No. 215.) In addition,
9 Defendant moves to exclude the Receiver’s Declaration filed in connection with
10 Plaintiff’s and the Receiver’s joint motion (the “Joint Motion”). (ECF No. 215.)

11 For the reasons that follow, the Court: (1) grants in part and denies in part
12 Plaintiff’s and Receiver’s Joint Motion for an order awarding settlement funds to the
13 Receiver (ECF No. 208); (2) denies Defendant’s cross-motion for an order awarding
14 settlement funds to Cooper (ECF No. 215); and (3) denies Defendant’s motion to
15 exclude portions of the Receiver’s Declaration (ECF No. 215).

16 **I. RELEVANT BACKGROUND**

17 **A. This Court’s Judgment Against Cooper**

18 On February 4, 2015, the SEC filed the Complaint in this case, alleging that
19 Cooper and Total Wealth wrongfully took investor client funds. (ECF No. 1.) The
20 SEC sought a temporary restraining order, preliminary injunction, and the
21 appointment of a receiver over Total Wealth and its related entities. (*Id.*) In addition,
22 the SEC sought permanent injunctions, disgorgement, and civil penalties against
23 Total Wealth and Cooper. (*Id.*)

24 Over two years after this case began, the SEC moved for summary judgment
25 against Cooper on July 24, 2017. (ECF No. 151.) Cooper did not oppose that motion,

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27 ¹ Seaman is the court-appointed permanent receiver for Total Wealth
28 Management, Inc. (“Total Wealth”) and its subsidiaries and affiliates, including but
not limited to Altus Capital Management, LLC (collectively, with Total Wealth, the
“Receivership Entities” or “Entities”).

1 but instead filed a motion to stay all proceedings in this case pending the outcome of
2 a March 2017 state criminal case against him. (ECF No. 173.) Cooper never
3 contested the substance of the SEC's allegations or the evidence presented in its
4 summary judgment motion. (ECF No. 176 at 9.) On September 27, 2017, the Court
5 denied Cooper's motion to stay, granted the SEC's motion for summary judgment,
6 and, among other things, ordered Cooper to pay the SEC \$584,354. (ECF No. 185.)
7 The Court provided Cooper a \$150,000 credit in connection with funds he already
8 paid to the Receiver. (*Id.*) The Court ordered that the SEC would hold the funds
9 paid by Cooper, but could transfer them to the Receiver or propose a plan to distribute
10 the funds subject to the Court's approval. (ECF No. 151 at 7:24–27.)

11 **B. The SEC Administrative Proceeding and ALJ Judgment**

12 On April 15, 2014, prior to initiating this case, the SEC brought its own
13 administrative enforcement proceeding (the “Administrative Proceeding”) against
14 Total Wealth and Cooper as well as other several other Total Wealth executives. *See*
15 *Total Wealth Mgmt., et al.*, Securities Act Release No. 9575, Exchange Act Release
16 No. 71948, Investment Advisers Release No. 3818, Investment Company Act
17 Release No. 31017, 2014 WL 1438614 (Apr. 15, 2014). An SEC administrative law
18 judge (“ALJ”) issued an Initial Decision against Cooper in *In the Matter of Total*
19 *Wealth Mgmt., Inc.* on August 17, 2015. *Total Wealth Mgmt., et al.*, Release No.
20 860, 2015 WL 4881991 (ALJ Aug. 17, 2015). The Initial Decision ordered Cooper
21 to pay \$2,595,992.99, inclusive of disgorgement, penalties, and prejudgment interest,
22 which was intended to benefit the investors harmed by his unlawful conduct. *Id.* at
23 *45. The ALJ set a 21-day deadline for Cooper to petition for review of the Initial
24 Decision. *Id.* at *46. The Initial Decision became the SEC's Final Decision on
25 October 13, 2015 because Cooper did not file a petition for review by the ALJ's
26 deadline and because the SEC declined to conduct its own independent review. *In*
27 *the Matter of Jacob Keith Cooper*, Exchange Act Release No. 7613, Investment
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1 Advisers Release No. 4223, Investment Company Act Release No. 31867, 2015 WL
2 5935346 (Oct. 13, 2015).

3 Over a month after the Initial Decision became final, Cooper filed a *pro se*
4 petition for review of the Initial Decision on November 17, 2015. *See In the Matter*
5 *of Jacob Keith Cooper*, Securities Act Release No. 10035, Exchange Act Release No.
6 77068, Investment Advisers Release No. 4329, Investment Company Act Release
7 No. 31985, 2016 WL 453458, at *1 (Feb. 5, 2016). The SEC dismissed the petition
8 as untimely. *Id.* at *4. The SEC reasoned that Cooper had failed to file a petition
9 within the 21-day period set by the ALJ in the Initial Decision and that Cooper failed
10 to show that he was entitled to equitable tolling for several reasons, including that
11 “Cooper admits that he received the Initial Decision from his lawyer on August 24.”
12 *Id.* at *3. Some eight months later, Cooper appealed the SEC’s dismissal of his
13 petition to the Ninth Circuit, an appeal which remains pending. *See Cooper v. SEC*,
14 No. 15-73193, Petition for Review, ECF No. 1 (9th Cir. Oct. 16, 2015).

15 **C. The Malpractice Actions and Jacko Settlement**

16 On November 9, 2015, Cooper filed a California state court action against
17 Michelle Jacko, Jacko Law Group, and other entities operated by Jacko (the “Jacko
18 Entities”). (ECF No. 215 at 1:22–23, ECF No. 215.) Cooper alleged professional
19 negligence as a result of negligent advice and direction given to Cooper. (ECF No.
20 215 at 1:24–25.) On February 3, 2016, the Receiver also filed a California state court
21 action against the Jacko Entities, which alleged an identical cause of action for
22 professional negligence. (ECF No. 215 at 1:25–28.)

23 Cooper and the Receiver engaged in a joint mediation with the Jacko Entities,
24 and a tentative settlement was reached in August 2017 (“Jacko Settlement” or
25 “Settlement”). (ECF No. 215 at 2:16–17.) During that process, Cooper and the
26 Receiver determined that, following payment of the Jacko Settlement funds, they
27 would discuss the allocation of those funds between them. (ECF No. 215 at 2:16–
28 22.) This Court approved and authorized the Jacko Settlement on September 22,

1 2017. (ECF No. 175.) The Court retained jurisdiction over the Jacko Settlement
2 proceeds in the event that the parties could not agree upon an allocation of the funds.
3 (ECF No. 185.)

4 **II. EVIDENTIARY ISSUES**

5 Before turning to the merits of how to allocate the Jacko Settlement proceeds,
6 the Court must address various evidentiary issues raised by Cooper which bear upon
7 resolution of the pending motions. These evidentiary issues pertain to the Receiver
8 and Plaintiff's request that the Court judicially notice the ALJ's Initial Decision and
9 the Receiver's Declaration.

10 **A. The Request for Judicial Notice and Cooper's Objection**

11 The Court first addresses Cooper's argument that the Court may not judicially
12 notice either the Initial Decision or the findings and conclusions of fact from the
13 Administrative Proceeding. (ECF No. 215 at 6:1–4.) Specifically, Cooper contends
14 that the Initial Decision may not be judicially noticed because it is not a matter of
15 public record. (ECF No. 225 at 5:2–8.) The Court rejects this argument.

16 Federal Rule of Evidence 201(b) allows a court to take judicial notice of “a
17 fact that is not subject to reasonable dispute because it (1) is generally known within
18 the trial court's territorial jurisdiction; or (2) can be accurately and readily determined
19 from sources whose accuracy cannot reasonably be questioned.” Fed. R. Evid.
20 201(b). Records and reports of administrative bodies are proper subjects of judicial
21 notice. *Interstate Nat. Gas Co. v. S. Cal. Gas Co.*, 209 F.2d 380, 385 (9th Cir. 1953);
22 *see also United States v. 14.02 Acres*, 547 F.3d 943, 955 (9th Cir. 2008) (“Judicial
23 notice is appropriate for records and reports of administrative bodies” (quoting
24 *Interstate Nat. Gas Co. v. S. Cal. Gas Co.*, 209 F.2d 380, 385 (9th Cir. 1954))). The
25 Initial Decision is a public record created by the SEC, an administrative body. *See*
26 *United States v. Sine*, 493 F.3d 1021, 1036–37 (9th Cir. 2007) (stating that a court
27 may take judicial notice of matters of public record); *see also 14.02 Acres*, 547 F.3d
28 at 955 (“Judicial notice is appropriate for records and reports of administrative

bodies.”) (quoting *Interstate Nat. Gas Co.*, 209 F.2d at 385). The Court must judicially notice the existence of the Initial Decision, including the outstanding \$2.5 million judgment it contains against Cooper. See *United States v. Jones*, 29 F.3d 1549, 1553 (11th Cir. 1994) (citing Fed. R. Evid. 201(b)); see *United States v. Boulware*, 384 F.3d 794, 805–06 (9th Cir. 2004) (citations omitted) (stating that “a prior judgment is not hearsay to the extent that it is offered as legally operative verbal conduct that determined the rights and duties of parties”).

Nevertheless, the Court will not judicially notice the findings and conclusions of fact contained in the Initial Decision, for the purposes of this Order. Cooper disputes the findings and conclusions of fact in the Initial Decision.² Generally, a court should not take judicial notice of facts if they are subject to “reasonable dispute.” See Fed. R. Evid. 201(b) (stating that, in order for a fact to be judicially noticed, it must be indisputable, meaning it must be one that only an unreasonable person would insist on disputing). Whether the conclusions and facts contained in the Initial Decision are subject to “reasonable” dispute is not an issue the Court need decide because the Court can resolve the pending motions without addressing it.³ Accordingly, the Court rejects Cooper’s arguments regarding the propriety of taking judicial notice of the Initial Decision.

B. Cooper’s Objections to the Receiver’s Declaration

The Receiver submitted a Declaration in connection with the Joint Motion. (See ECF No. 208-2, Declaration of Thomas A. Seaman (“Seaman Decl.”).) The

² Cooper further argues that the Court should not consider any factual findings set forth in the Initial Decision because their probative value is substantially outweighed by the danger of unfair prejudice to him. (ECF No. 215 at 7:16-19.) Because the Court does not judicially notice the findings of fact contained in the Initial Decision for other reasons, the Court need not address this argument.

³ The findings of fact in the Initial Decision regarding Defendant’s alleged securities fraud are generally not necessary to determine how to distribute assets. See *SEC v. Bivona*, No. 16-CV-01386-EMC, 2017 WL 4022485, at *6 (N.D. Cal. Sept. 13, 2017).

1 Declaration details the Receiver’s forensic accounting investigation, which includes
2 a detailed review of relevant business records by the Receiver. (ECF No. 208 at
3 3:12–17.) These records include general ledgers and other digital and computer
4 records, accounting records, bank and other financial statements, invoices for
5 professional services rendered, written communications, court records, and client
6 files turned over by pre-receivership counsel. (*See* Seaman Decl. 2:10–20.) From
7 his investigation and analysis, the Receiver concludes that Cooper misappropriated
8 at least \$1,842,141.36 in funds derived from investors for himself or his personal
9 benefit, not including investor money used to pay his salary. (Seaman Decl. 4:1–4,
10 Exs. 1–5.)

11 Cooper broadly objects to this Declaration and requests that the Court strike it.
12 (ECF No. 215 at 12:22–23.) First, he asserts that the Declaration contravenes Federal
13 Rule of Evidence 602 because the Receiver does not have personal knowledge of the
14 Declaration’s facts. (*Id.*) Second, Cooper contends that the Declaration’s forensic
15 accounting information was gathered during the Administrative Proceeding, which
16 may not be relied upon by this Court. (ECF No. 215 at 12:5–6.) The Court construes
17 Cooper’s request as a motion to exclude and finds Cooper’s objections are
18 insufficient to exclude the Receiver’s Declaration.

19 **1. The Receiver Has Sufficient Personal Knowledge**

20 The Receiver has personal knowledge of the facts in his Declaration and
21 forensic accounting report. Federal Rule of Evidence 602 states that a “witness may
22 testify to a matter only if evidence is introduced sufficient to support a finding that
23 the witness has personal knowledge of the matter.” Fed. R. Evid. 602. The Rule
24 ensures that a witness cannot simply state conclusions without any evidentiary basis.
25 *See Carmen v. S.F. Unified Sch. Dist.*, 237 F.3d 1026, 1028 (9th Cir. 2001) (“It is not
26 enough for a witness to tell all she knows; she must know all she tells.”). However,
27 “[e]vidence to prove personal knowledge may consist of the witness’s own
28 testimony.” Fed. R. Evid. 602.

1 In this case, not only is the Receiver’s forensic accounting investigation
2 supported by evidence, but the Receiver has also testified about his personal
3 knowledge regarding *his* investigation. Specifically, in the Declaration, the Receiver
4 states that he has “personal knowledge of the facts detailed in [the] Declaration.”
5 (Seaman Decl. 2:6–9.) The assertion is plainly supported by the evidence because
6 the Receiver undertook the investigation and analysis of the business and financial
7 activities of the Receivership Entities. (Seaman Decl. 2:10–20.) For example, the
8 Receiver and his staff “reviewed hundreds of thousands of pages of documents . . .
9 in connection with [the] investigation.” (Seaman Decl. 2:17–20.) The Receiver’s
10 Declaration in turn contains multiple exhibits of relevant business records and
11 transactions, including general ledgers and other digital and computer records,
12 accounting records, bank and other financial statements, invoices for professional
13 services rendered, written communications, court records, and client files turned over
14 by pre-receivership counsel. (*See* Seaman Decl. 2:10–20.) Based on these records,
15 the Receiver has concluded that Cooper misappropriated at least \$1,842,141.36 in
16 funds derived from investors for himself or his personal benefit, not including
17 investor money used to pay his salary. (Seaman Decl. 4:1–4, Exs. 1–5.)

18 Because there is evidence of the Receiver’s personal knowledge, this case is
19 distinguishable from *Carmen*. In *Carmen*, there was no evidence in the deposition
20 or in the papers of any basis in personal knowledge for “the plaintiff’s subjective
21 belief about the defendant’s motives.” *See Carmen*, 237 F.3d at 1028. Unlike
22 *Carmen*, the Receiver does not base his Declaration on his own subjective belief.
23 Rather, the Receiver’s testimony is (1) supported by evidence, such as business
24 records, a ledger reflecting business transactions, and thousands of pages of
25 documents in connection with the business and financial activities of the
26 Receivership, and (2) the Receiver’s own review of that evidence. (Seaman Decl.
27 2:17–20, 4:7–9.) Accordingly, the Court rejects Cooper’s objection that the
28 Receiver’s Declaration must be excluded on the ground that the Receiver lacks

1 personal knowledge.

2 **2. The Forensic Accounting Evidence is Admissible**

3 Cooper further argues that the Declaration’s forensic accounting evidence is
4 not admissible because conclusions and findings of fact from the Initial Decision may
5 not be relied upon by this Court. (ECF No. 215 at 3:6–8.) The Court easily rejects
6 this argument because the Receiver’s forensic accounting investigation in this case
7 is *separate from and independent of* the findings and conclusions of fact in the Initial
8 Decision. This Court specifically charged the Receiver with the duties of
9 investigating, recovering, and marshaling the assets of the Receivership Entities.
10 (ECF No. 8 at 9:5–14 (order appointing the Receiver); ECF No. 102 at 2 (appointing
11 Seaman as successor receiver who “succeeds to all of the duties and obligations of
12 the original receiver as defined in this Court’s preliminary injunction and order
13 appointing receiver”).) The Receiver had the authority to conduct a forensic
14 accounting investigation and to discern the details of Cooper’s business and financial
15 transactions, which the Receiver exercised. (ECF No. 208 at 3:6–11.) Accordingly,
16 the Court finds that the Receiver’s Declaration, including its findings and conclusions
17 based on the Receiver’s investigation, is admissible and denies Cooper’s motion to
18 exclude portions the Receiver’s Declaration.

19 **III. DISCUSSION**

20 With the evidentiary issues resolved, the Court turns to the merits of the
21 motions. The Receiver argues that the Court should set-off Cooper’s debt to the
22 Receivership Entities against the Jacko Settlement proceeds. (ECF No. 208 at 5:16–
23 17.) Alternatively, he argues that Cooper’s claim to payment from the settlement
24 should be equitably subordinated. (ECF No. 208 at 7:6–7.) The Receiver ultimately
25 contends that Cooper’s right to a portion of the proceeds, if any, yields to the
26 outstanding judgments against him rendered by the ALJ and this Court as well as the
27 investor restitution and disgorgement claim the Receiver seeks to prove now. Cooper
28 challenges the Receiver’s Joint Motion and argues that there should be no set-off

1 from his recovery of the Jacko Settlement funds. (ECF No. 215 at 3:13–15.)
2 Additionally, he argues that his claim to recovery of the proceeds should not be
3 equitably subordinated because he, and not the Receivership Entities, suffered harm
4 from the Jacko Entities’ malpractice. (ECF No. 215 at 3:10–12.)

5 The Court concludes it is proper to grant a set-off of Cooper’s debt against the
6 Settlement proceeds insofar as it is necessary to satisfy the outstanding portion of the
7 Court’s previous summary judgment award of \$584,354.00. (ECF No. 151.) The
8 Court concludes that although set-off is not proper for the Receiver’s restitution and
9 disgorgement claim, any claim Cooper might have to Settlement proceeds must be
10 equitably subordinated to the restitution and disgorgement claim, to the extent any
11 proceeds remain after set-off of this Court’s judgment. Finally, the Court rejects both
12 set-off and equitable subordination for the judgment against Cooper that resulted
13 from the ALJ’s Initial Decision.

14 **A. General Principles Governing Receiverships**

15 A district court’s “power to supervise an equity receivership and to determine
16 the appropriate action to be taken in the administration of the receivership is
17 extremely broad.” *SEC v. Capital Consultants, LLC*, 397 F.3d 733, 738 (9th Cir.
18 2005) (quoting *SEC v. Hardy*, 803 F.2d 1034, 1037 (9th Cir. 1986)). A “district court
19 has broad powers and wide discretion to determine the appropriate relief in an equity
20 receivership.” *Id.* (quoting *SEC v. Lincoln Thrift Ass’n*, 577 F.2d 600, 606 (9th Cir.
21 1978)). This broad deference to the district court’s supervisory role in an equity
22 receivership “arises out of the fact that most receiverships involve multiple parties
23 and complex transactions.” *Id.* (quoting *Hardy*, 803 F.2d at 1037). However, case
24 law involving “district court administration of an equity receivership (once the
25 receivership is underway) is sparse and is usually limited to the facts of the particular
26 case.” *Hardy*, 803 F.2d at 1037 (quoting *Lincoln Thrift Ass’n*, 577 F.2d at 607).

27 The primary purpose of an equity receivership is to promote the district court’s
28 orderly and efficient administration of an estate for the benefit of the creditors.

1 *Hardy*, 803 F.2d at 1038; *SEC v. Wencke*, 783 F.2d 829, 837 n.9 (9th Cir. 1986). The
2 court may institute reasonable administrative procedures to serve this purpose.
3 *Hardy*, 803 F.2d at 1038. The procedures used by a district court must be a
4 reasonable and practicable attempt to administer the receivership without depriving
5 the creditors of fair notice and a reasonable opportunity to respond.⁴ *See id.*, 803
6 F.2d at 1040; *see also Wencke*, 783 F.2d at 837–38 (noting that use of summary
7 procedures is permissible if potential creditors of the receivership are given adequate
8 notice).

9 Courts look to bankruptcy law as an aid to address issues that arise in the
10 receivership context. *See, e.g., SEC v. Wells Fargo Bank*, 848 F.3d 1339, 1345 (11th
11 Cir. 2017) (stating that bankruptcy law is analogous and instructive to the
12 receivership context); *Marion v. TDI Inc.*, 591 F.3d 137, 148 (3d Cir. 2010)
13 (analyzing bankruptcy law in a receivership context); *Fidelity Bank, Nat’l Ass’n v.*
14 *M.M. Grp., Inc.*, 77 F.3d 880, 882 (6th Cir. 1996) (stating that it is “appropriate and
15 helpful to refer to the rules governing appellate standing in bankruptcy proceedings”
16 when no case law exists regarding the rules in a receivership action); *Unisys Fin.*
17 *Corp. v. Resolution Tr. Corp.*, 979 F.2d 609, 611 (7th Cir. 1992) (reasoning
18 that bankruptcy law is “parallel” and “instructive” in the receivership context). This
19 Court has also authorized the Receiver to “[a]dminister the estate of the Receivership
20 Entities . . . in accordance with relevant bankruptcy principles.” (Order Granting
21 Motion for Order in Aid of Receivership 3:25–27, ECF No. 31.)

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25 ⁴ The use of summary proceedings to determine appropriate relief in equity
26 receiverships is within the jurisdictional authority of a district court. *See Wencke*
27 *II*, 783 F.2d at 836–38; *Universal Fin.*, 760 F.2d 1034, 1037 (9th Cir. 1985); *United*
28 *States v. Ariz. Fuels Corp.*, 739 F.2d 455, 458 (9th Cir. 1984). Such procedures “avoid
formalities that would slow down the resolution of disputes. This promotes judicial
efficiency and reduces litigation costs to the receivership.” *Wencke II*, 783 F.2d at
837 n.9.

B. Set-Off of Cooper's Debt Against the Settlement Proceeds

1. General Principles

The right of set-off allows entities that owe each other money to “apply their mutual debts against each other, thereby avoiding ‘the absurdity of making A pay B when B owes A.’” *Citizens Bank of Md. v. Strumpf*, 516 U.S. 16, 18 (1995) (citations omitted). In bankruptcy law, set-offs are allowed to the extent that they are based on (i) mutual obligations existing between the debtor and a creditor and (ii) on concepts of fairness and the prevention of injustice. *In re Pieri*, 86 B.R. 208, 210 (B.A.P. 9th Cir. 1988) (citations omitted). The defining characteristic of a set-off is that “the mutual debt and claim . . . are generally those arising from *different* transactions.” 4 *Collier on Bankruptcy* ¶ 553.03, at 553–14 (15th ed. 1995).

The burden of proving an enforceable right of set-off rests with the party asserting the right. *Newbery Corp. v. Fireman's Fund Ins. Co.*, 95 F.3d 1392, 1399 (9th Cir. 1996) (citing *In re Cty. of Orange*, 183 B.R. 609, 615 (Bankr. C.D. Cal. 1995)). When the burden is met and it is determined that a right of set-off exists, set-offs are “generally favored” and a “presumption in favor of their enforcement exists.” *In re De Laurentiis Entm't Grp., Inc.*, 963 F.2d 1269, 1277 (9th Cir. 1992) (describing the historical common-law presumption in favor of set-offs). However, although set-offs are generally favored, they are not automatically permitted. *In re Pieri*, 86 B.R. at 210 (citing *Melamed v. Lake Country Nat'l Bank*, 727 F.2d 1399, 1404 (6th Cir. 1984)).

The Ninth Circuit has held that a court has discretion in deciding whether to allow a set-off. *See, e.g., First Nat'l Bank of Portland v. Dudley*, 231 F.2d 396, 398 (9th Cir. 1956); *In re Diplomat Elec., Inc.*, 499 F.2d 342, 346 (5th Cir. 1974). Principles and rules of equity jurisprudence guide the court's discretion. *See Capital Consultants, LLC*, 397 F.3d at 738 (stating that a “district court has broad powers and wide discretion to determine the appropriate relief in an equity receivership” (quoting *Lincoln Thrift Ass'n*, 577 F.2d at 606)); *see In re Diplomat Elec., Inc.*, 499 F.2d at

1 346. Because the set-off right is an established part of bankruptcy laws, it should be
2 enforced “unless compelling circumstances” require otherwise. *In re Buckenmaier*,
3 127 B.R. 233, 237–38 (B.A.P. 9th Cir. 1991) (citing *Bohack Corp. v. Borden*,
4 *Inc.*, 599 F.2d 1160, 1165 (2d Cir. 1979)).

5 **2. Application**

6 **a. The Court’s Previous Judgment**

7 The Receiver argues that the Court should set-off Cooper’s debt to the
8 Receivership Entities against the Jacko Settlement proceeds. (ECF No. 208 at 5:16–
9 17.) This Court previously granted a motion for summary judgment against Cooper
10 and in favor of the SEC in the amount of \$584,354, inclusive of penalties and
11 disgorgement, for restitution to Receivership Entities investors. (ECF No. 151.) In
12 its discretion, the Court finds it is proper to grant a set-off Cooper’s debt from this
13 Court’s previous judgment against the Settlement proceeds. *See Capital Consultants*,
14 *LLC*, 397 F.3d at 738 (stating that a “district court has broad powers and wide
15 discretion to determine the appropriate relief in an equity receivership” (quoting
16 *Lincoln Thrift Ass’n*, 577 F.2d at 606)); *see also In re De Laurentiis Entm’t Group*,
17 *Inc.*, 963 F.2d at 1277 (noting that set-offs are “generally favored” and a
18 “presumption in favor of their enforcement exists”).

19 First, there is a pre-existing mutual obligation between Cooper and the
20 Receivership Entities with regard to the Court’s previous judgment. The judgment
21 requires Cooper to pay the SEC, and therefore the Receiver, \$584,354 that would be
22 distributed to the defrauded investors. (ECF No. 151.) Cooper concedes that it is
23 proper to consider this judgment in determining how to award the Jacko Settlement
24 proceeds. (ECF No. 215 at 11.) The Court’s previous judgment thus constitutes a
25 pre-existing obligation of Cooper for which a set-off may be granted. *See In re Pieri*,
26 86 B.R. at 210 (citations omitted).

27 Next, the Court must determine whether it satisfies general principles of equity
28 and fairness to grant a set-off with regard to the Court’s judgment. *See In re Pieri*,

1 86 B.R. at 210 (citations omitted) (noting that the right to set-off is dependent on
2 general principles of equity); *see also In re Buckenmaier*, 127 B.R. at 237–38 (stating
3 that the right of set-off is an established part of bankruptcy laws (citing *Bohack Corp.*,
4 599 F.2d at 1165)). The Receiver acts on behalf of the best interests of the investors
5 of the Receivership Entities, who were harmed. (ECF No. 208 at 8:18–22.) This
6 Court previously granted the Receiver the power and duty to “collect and take
7 custody, control, possession, and charge of all funds, assets, collateral, [or]
8 premises.” (ECF No. 8 at 9:5–6.) It indisputably satisfies principles of equity and
9 fairness to grant a set-off. *See Wuliger v. Mfrs. Life Ins. Co.*, 567 F.3d 787, 795 (6th
10 Cir. 2009) (“[T]he purpose of a receiver [is] to marshal the receivership entities’
11 assets . . . so that the assets may be distributed to the injured parties in a manner the
12 court deems equitable.”). As the Receiver is currently in possession and control of
13 the Jacko Settlement proceeds, the Court finds it proper and equitable for the
14 Receiver to maintain possession and control of Cooper’s settlement award for
15 distribution to the defrauded investors.

16 Lastly, the Court must determine that there are no compelling circumstances
17 that would require the Court to deny a set-off in this case. *See In re Buckenmaier*,
18 127 B.R. at 237–38 (stating that a set-off should be enforced, “unless [there are]
19 compelling circumstances”) (citing *Bohack Corp.*, 599 F.2d at 1165). Cooper
20 contends that he is the only person who suffered damage as a result of the
21 professional negligence of the Jacko Entities, and therefore only he should be
22 awarded the Jacko Settlement proceeds. (ECF No. 215 at 16:22–25.) Although
23 Cooper does not refer to this argument as a “compelling circumstance” that would
24 justify rejecting a set-off, the Court construes his argument as such. *See In re*
25 *Buckenmaier*, 127 B.R. at 237–38 (citing *Bohack Corp.*, 599 F.2d at 1165). The
26 Court finds that Cooper has failed to identify a compelling circumstance to deny a
27 set-off. The focus of a set-off analysis is whether Cooper has an existing obligation
28 for which set-off would be appropriate. *See In re Pieri*, 86 B.R. at 210 (citations

omitted). Even if Cooper is the only one to have suffered harm as a result of the Jacko entities' conduct⁵, his obligation to the investor creditors in this case—which arises from his settled liability in this case regarding the harm he caused the investors creditors—remains. Accordingly, the Court grants a set-off of Cooper's debt against the Settlement proceeds insofar as it is necessary to satisfy the outstanding portion of this Court's judgment against Cooper in the amount of \$584,354.00.⁶ (ECF No. 151.)

b. The ALJ's Initial Decision and Resulting Judgment

On August 17, 2015, the ALJ rendered an Initial Decision in the Administrative Proceeding, which contained a judgment against Cooper in the amount of \$2,595,992.99, inclusive of disgorgement and penalties. *See In re Matter of Jacob Keith Cooper*, Release No. 860, 2015 WL 4881991 (ALJ Aug. 17, 2015). The Joint Motion also seeks a set-off based on this judgment. The Court finds that it is not proper to grant a set-off to satisfy the ALJ's judgment because there is a compelling circumstance that warrants rejecting a set-off. *See In re Buckenmaier*, 127 B.R. at 237–38 (stating that a set-off should be enforced “unless [there are] compelling circumstances” (citing *Bohack Corp.*, 599 F.2d at 1165)).

Cooper raises two arguments against granting a set-off for the ALJ judgment. First, Cooper challenges the validity of the ALJ's judgment on the ground that the ALJ was not constitutionally appointed. (ECF No. 215 at 10:3–25.) Second, Cooper

⁵ Cooper also states that he attempted to alleviate the suffering of his investors by relinquishing his right to receive money for necessary and reasonable living expenses; he argues that this attempt “should act as a mitigating and militating factor in his favor.” (ECF No. 215 at 17:16-23.) This argument is unpersuasive particularly given the extent of the harm the investors suffered as a result of Cooper's conduct.

⁶ Because it is proper to set-off Cooper's debt to satisfy the Court's previous judgment, the Court will not fully analyze whether it is proper to equitably subordinate Cooper's claim in order to satisfy that same judgment. *See Ariz. Fuels Corp.*, 739 F.2d at 458 (stating that receivership courts have discretion in determining whether to allow, disallow, or subordinate claims of creditors). However, the Court observes that equitable subordination of any claim Cooper might have to the Settlement proceedings would be proper with respect to this Court's judgment.

1 argues that the Court should not rule on the Joint Motion until the Supreme Court has
2 decided *Lucia v. SEC*, a case which was pending at the time of Cooper’s opposition
3 and cross-motion which addressed the constitutionality of SEC ALJ appointments.
4 (ECF No. 215 at 10:3–25.) Cooper’s second argument is moot because the Supreme
5 Court decided *Lucia* on June 21, 2018, holding that SEC ALJs are “Officers of the
6 United States” and are subject to the Appointments Clause of the Constitution. *Lucia*
7 *v. SEC*, 138 S. Ct. 2044, 2047 (2018). Thus, only Cooper’s first argument remains.
8 Contrary to the objections raised by the Receiver and Plaintiff that *Lucia* is not
9 relevant to these proceedings, the Court finds it is relevant because the Joint Motion
10 expressly requested a set-off based on the ALJ judgment. Accordingly, the Court
11 briefly discusses *Lucia*, which frames Cooper’s challenge to granting a set-off based
12 on the ALJ’s judgment.

13 In *Lucia*, the SEC instituted an administrative proceeding against Lucia and
14 his investment company for allegedly deceiving prospective clients. *Id.* at 2049. The
15 ALJ issued an initial decision which concluded that Lucia violated the Investment
16 Advisers Act and imposed sanctions, including \$300,000 in civil penalties. *Id.* Lucia
17 argued before the SEC that the administrative proceeding was invalid because the
18 ALJ had not been constitutionally appointed. *Id.* On appeal, the Supreme Court held
19 that the SEC’s ALJs are indeed “Officers of the United States” within the meaning
20 of the Constitution’s Appointment Clause, therefore they may only be
21 constitutionally appointed by the President, a court of law, or a head of department.
22 *Id.* at 2051. The ALJ who presided over Lucia’s proceeding was not appointed in
23 such a manner. *Id.* In deciding how to remedy that constitutional violation, the
24 Supreme Court reasoned that Lucia was entitled to a new hearing before a different
25 constitutionally-appointed SEC ALJ because he had made a “timely challenge to the
26 constitutional validity of the appointment of [the] officer who adjudicate[d] his case.”
27 *Id.* at 2055 (citing *Ryder v. U.S.*, 515 U.S. 177, 182–83 (1995)). The Supreme Court
28 determined that Lucia’s challenge was timely because he had “contested the validity

1 of [the ALJ's] appointment before the Commission" and even thereafter "continued
2 pressing that claim in the Court of Appeals and this Court." *Id.*

3 Armed with *Lucia*, Cooper argues that set-off is inappropriate because the ALJ
4 in his administrative proceedings was not constitutionally appointed. (ECF No. 215
5 at 10–11; ECF No. 226 at 2.) Analogizing his circumstances to those of the petitioner
6 in *Lucia*, Cooper argues that he timely raised his challenge to the constitutional
7 validity of the ALJ's appointment and thus he is entitled to relief. (ECF No. 226 at
8 2.) Cooper argues that this alleged constitutional infirmity thus renders the ALJ's
9 \$2.5 million judgment against him a "complete nullity" which is "void" and "no
10 longer exists." (ECF No. 215 at 9; ECF No. 226 at 2.)

11 Setting aside the merits of Cooper's *Lucia*-based challenge to the validity of
12 the SEC ALJ judgment⁷, the Court finds that there are compelling circumstances to
13 deny the Joint Motion's request to grant a set-off on the basis of that judgment. *See*
14 *In re Buckenmaier*, 127 B.R. at 237–38 (citations omitted) (stating that a set-off
15 should be enforced, "unless [there are] compelling circumstances"). In October
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17 ⁷ The Court has doubts that Cooper's *Lucia*-based argument will entitle him to
18 any relief from the ALJ judgment. By its terms, *Lucia* provides relief from an SEC
19 judgment made by an unconstitutionally appointed ALJ when an individual subject to
20 that judgment has made a "timely challenge to the constitutional validity of the
21 appointment of an officer who adjudicates his case." *See Lucia*, 138 S. Ct. at 2055
22 (citing *Ryder*, 515 U.S. at 182–83). The SEC determined that Cooper did not file a
23 timely petition against the Initial Decision and failed to show that he was entitled to
24 equitable tolling of the deadline because he knew of the decision within a week of its
25 issuance. *See In re Matter of Jacob Keith Cooper*, Securities Act Release No. 10035,
26 Exchange Act Release No. 77068, Investment Advisers Release No. 4329, Investment
27 Company Act Release No. 31985, 2016 WL 453458, at *1 (Feb. 5, 2016). Given
28 these findings, it is questionable whether Cooper is entitled to any relief. *See United States v. Olano*, 507 U.S. 725, 731 (1993) (quoting *Yakus v. U.S.*, 321 U.S. 414, 444 (1944)) (A constitutional right "may be forfeited in criminal as well as civil cases by the failure to make timely assertion of the right"); *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37 (1952) (courts "should not topple over administrative decisions unless the administrative body not only has erred but has erred against objection made at the time appropriate under its practice.").

1 2015, Cooper appealed the judgment in the Administrative Proceeding and his appeal
2 remains pending before the Ninth Circuit. *See Cooper v. SEC*, No. 15-73193, ECF
3 No. 44 (9th Cir. June 27, 2018) (status report filed by Cooper after *Lucia* decision);
4 ECF No. 45 (9th Cir. June 28, 2018) (status reported filed by SEC). Although the
5 SEC and the Receiver have sought to use the ALJ judgment against Cooper now⁸,
6 the proceedings in this Court are collateral to the direct review of the Initial Decision
7 Cooper has sought in the Ninth Circuit. This Court will not grant a set-off for a
8 judgment whose validity remains unsettled in the forum conducting a direct review.
9 Accordingly, in its broad equitable discretion over whether to grant a set-off, the
10 Court finds that it is inappropriate to do so now with respect to the ALJ judgment and
11 denies a set-off for that judgment. *See In re Pieri*, 86 B.R. at 210 (citations omitted)
12 (noting that the right to set-off is dependent on general principles of equity). This
13 denial is without prejudice to the Receiver and SEC seeking a set-off or equitable
14 subordination with respect to the ALJ judgment at a later point after the Ninth Circuit
15 has resolved Cooper's appeal, if appropriate, and insofar as any proceeds from the
16 Jacko Settlement remain.

17 **c. The Restitution and Disgorgement Claim**

18 Lastly, the Receiver also seeks a set-off on the ground that the investors have
19 a disgorgement and restitution claim against Cooper. (ECF No. 208 at 4:9–11.) To
20 grant a set-off, there must be a pre-existing obligation between the debtor, Defendant
21 Cooper, and the creditors, the investors of the Receivership Entities, on whose behalf

22 ⁸ The Joint Motion expressly requested a set-off based on the ALJ Judgment.
23 (ECF No. 208-1 at 2–3, 8.) After Cooper raised his *Lucia*-based challenge in
24 opposition to the Joint Motion, the Receiver and SEC doubled down on their request
25 that the Court rely on the ALJ judgment, albeit in separate replies. (ECF No. 220 at
26 3–4 (Receiver's reply); ECF No. 222 (SEC's reply.) After the Supreme Court decided
27 *Lucia* and Cooper filed a notice of supplemental authority with the Court, the Receiver
28 appears to have conceded that reliance on the ALJ judgment is inappropriate by
instead basing his request solely on the restitution and disgorgement claim and the
outstanding judgment in this case. (ECF No. 227 at 2.) The SEC did not join the
Receiver's response.

1 the Receiver acts. *See In re Pieri*, 86 B.R. at 210 (citations omitted). The Joint
2 Motion fails this first requirement because the Receiver cannot show that the
3 disgorgement and restitution claim is a *pre-existing* obligation from Cooper to the
4 investors. Rather, the Receiver seeks to establish that such a claim exists through a
5 present determination by the Court. The claim is thus distinguishable from the
6 existing judgment this Court entered against Cooper. Accordingly, the Court denies
7 a set-off with respect to the restitution and disgorgement claim.

8 **C. Equitable Subordination of Cooper's Claim to the Proceeds**

9 **1. General Principles**

10 The court has discretion to subordinate claims of certain creditors of the
11 Receivership Entities to the claims of investors or other creditors. *See Ariz. Fuels*
12 *Corp.*, 739 F.2d at 458 (stating that receivership courts may allow, disallow, or
13 subordinate claims of creditors). Equitable subordination is appropriate when a
14 claimant has engaged in inequitable conduct to advantage himself to the disadvantage
15 of other claimants. *See, e.g., In re First All. Mortg. Co.*, 471 F.3d 977, 1006 (9th Cir.
16 2006). A bankruptcy court has the authority to subordinate a claim on equitable
17 grounds. *See Pepper v. Litton*, 308 U.S. 295, 304–05 (1939); *In re Westgate-Cal.*
18 *Corp.*, 642 F.2d 1174, 1177 (9th Cir. 1981); *Fabricators, Inc. v. Technical*
19 *Fabricators, Inc. (In re Fabricators, Inc.)*, 926 F.2d 1458, 1464 (5th Cir. 1991).
20 However, equitable subordination is an unusual remedy which should be applied only
21 in limited circumstances. *In re Fabricators, Inc.*, 926 F.2d at 1464; *In re Octagon*
22 *Roofing*, 157 B.R. 852, 857 (N.D. Ill. 1993).

23 Three findings are generally required before equitable subordination will be
24 granted: “(1) that the claimant engaged in some type of inequitable conduct, (2) that
25 the misconduct injured creditors or conferred unfair advantage on the claimant, and
26 (3) that subordination would not be inconsistent with the Bankruptcy Code.”
27 *In re Lazar*, 83 F.3d 306, 309 (9th Cir. 1996) (citing *Benjamin v. Diamond*
28 *(In re Mobile Steel Co.)*, 563 F.2d 692, 699–700 (5th Cir. 1977)); *see* 11 U.S.C.A. §

1 510(c). The court is required to make specific findings and conclusions with respect
2 to each of the three requirements. *In re Lazar*, 83 F.3d at 309; *In re Fabricators*,
3 *Inc.*, 926 F.2d at 1465; *Wegner v. Grunewaldt*, 821 F.2d 1317, 1323 (8th Cir. 1987).
4 However, satisfaction of this three-part standard does not mean that a court
5 is required to equitably subordinate a claim; rather, the court is permitted to take such
6 action. *In re AutoStyle Plastics, Inc.*, 269 F.3d 726, 744–45 (6th Cir. 2001) (noting
7 that the court applies careful scrutiny in reviewing equitable subordination claims
8 and uses great caution in applying a remedy (citing *In re Octagon Roofing*, 157 B.R.
9 at 857)).

10 Equitable subordination is particularly appropriate when the claimant involved
11 is an insider. *See id.*; *In re First All. Mortg. Co.*, 471 F.3d at 1006. When reviewing
12 equitable subordination claims, courts impose a higher standard of conduct on
13 insiders. *In re AutoStyle Plastics, Inc.*, 269 F.3d at 744–45 (citing *In re Octagon*
14 *Roofing*, 157 B.R. at 857). Indeed, “[a] claim arising from the dealings between a
15 debtor and an insider is to be rigorously scrutinized by the courts.” *Id.* (citing *In re*
16 *Fabricators, Inc.*, 926 F.2d at 1465). Therefore, “if the claimant is an insider, less
17 egregious conduct may support equitable subordination.” *In re Herby’s Foods*,
18 *Inc.*, 2 F.3d 128, 131 (5th Cir. 1993); *cf. In re Fabricators, Inc.*, 926 F.2d at 1465
19 (citations omitted) (“If the claimant is not an insider, then evidence of more egregious
20 conduct such as fraud, spoliation or overreaching is necessary.”). However, “the
21 mere fact of an insider relationship is insufficient to warrant subordination.” *In re*
22 *AutoStyle Plastics, Inc.*, 269 F.3d at 745 (citations omitted). “In order to equitably
23 subordinate a creditor’s claim, the creditor-insider must actually use its power to
24 control to its own advantage or to the other creditors’ detriment.” *In re AutoStyle*
25 *Plastics, Inc.*, 269 F.3d at 745 (citations omitted); *In re Fabricators, Inc.*, 926 F.2d
26 at 1467.

1 **2. Application**

2 **a. The Restitution and Disgorgement Claim**

3 To the extent any proceeds remain after a set-off for this Court’s judgment, the
4 Court finds it is proper to equitably subordinate any claim Cooper has to satisfy the
5 restitution and disgorgement claim raised in the Joint Motion. The requirements of
6 equitable subordination are satisfied for that claim, particularly in light of Cooper’s
7 status as an insider which lessens the evidentiary burden the Receiver must satisfy to
8 show inequitable conduct. *See In re Lazar*, 83 F.3d at 309 (citing *In re Mobile Steel*
9 *Co.*, 563 F.2d at 699–700).

10 The first requirement for equitable subordination asks whether Cooper
11 engaged in inequitable conduct. This inquiry requires the Court to make “specific
12 findings and conclusions” regarding Cooper’s inequitable conduct and the injury that
13 occurred to his investors. *See id.*; *In re Fabricators, Inc.*, 926 F.2d at
14 1465; *Wegner*, 821 F.2d at 1323. As the movant seeking equitable subordination, the
15 Receiver must plead and prove that Cooper engaged in inequitable conduct. *See In*
16 *re 604 Columbus Ave. Realty Tr.*, 968 F.2d 1332, 1359–60 (1st Cir. 1992) (stating
17 that equitable subordination usually applies to three situations: the fiduciary’s misuse
18 of his position to the disadvantage of creditors, third party domination and control
19 plus disadvantage, and fraud). It is clear that Cooper, as CEO and founder of Total
20 Wealth, was an insider of Total Wealth. *See In re First All. Mortg. Co.*, 471 F.3d at
21 1006 (stating that equitable subordination is particularly appropriate when the
22 claimant involved is an insider); *see also In re Herby’s Foods, Inc.*, 2 F.3d at 131
23 (noting that, “if the claimant is an insider, less egregious conduct may support
24 equitable subordination”). The Receiver’s forensic accounting investigation led him
25 to conclude that Cooper misappropriated at least \$1,842,141.36 in funds derived from
26 investors for himself or his personal benefit, not including investor money used to
27 pay his salary. (Seaman Decl. 4:1–4, Exs. 1–5.) In opposition, Cooper asserts a
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1 blanket denial of all the Receiver's findings and conclusions. (ECF No. 215 at 13.)⁹
2 However, despite the opportunity to credibly controvert the Receiver's findings,
3 Cooper's denial is unsupported by any facts that would render the Receiver's factual
4 findings and conclusions suspect. Accordingly, the Court concludes that there is
5 uncontroverted evidence that Cooper engaged in inequitable conduct. *See In re*
6 *604 Columbus Ave. Realty Tr.*, 968 F.2d at 1359–60.

7 The Receiver's forensic accounting investigation and resulting findings satisfy
8 the second equitable subordination requirement. After careful analysis of financial
9 records, the Receiver has credibly proven that Cooper's misconduct conferred unfair
10 advantage on Cooper to the detriment of the investor clients. *See In re Lazar*,
11 83 F.3d at 309 (citing *In re Mobile Steel Co.*, 563 F.2d at 699–00; *see* 11 U.S.C.A. §
12 510(c). Once more Cooper fails to seriously dispute this conclusion or the facts
13 underlying it. Cooper misappropriated at least \$1,842,141.36 in funds for his
14 personal benefit, thereby conferring unfair advantage on himself. (Seaman Decl. 4:1–
15 4, Exs. 1–5.)

16 Lastly, Cooper makes no concrete argument that equitable subordination of
17 Cooper's claim, if any, to the restitution and disgorgement claim is inconsistent with
18 the Bankruptcy Code. Accordingly, the Court concludes that it is proper to equitably
19 subordinate Cooper's claim to the Settlement proceeds to the restitution and
20 disgorgement claim.

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22
23 ⁹ Cooper argues that the Receiver's findings are based on the finding of the
24 Initial Decision and thus cannot serve as a basis for awarding the Settlement proceeds
25 to the Receiver. (ECF No. 215 at 12–13.) This argument is belied by the Receiver's
26 declaration, which attests to the Receiver's independent investigation. Cooper also
27 argues that the Receiver's Declaration indicates that the Receiver reviewed court
28 records and it is "highly likely . . . those 'court records' included the Initial Decision,
and such cannot be relied upon[.]" (*Id.* at 12.) Setting aside that administrative
records are not court records, Cooper fails to show any identity between the findings
in the Initial Decision and the Receiver's decision that might suggest that the Initial
Decision is the true basis of the Receiver's conclusions.

1 **b. The ALJ Judgment**

2 Assuming *arguendo* that the requirements of equitable subordination are
3 satisfied with respect to the ALJ's Initial Decision, the Court has discretion to
4 subordinate the claims of certain creditors to the claims of investors or other creditors.
5 *See Ariz. Fuels Corp.*, 739 F.2d at 458 (stating that receivership courts may allow,
6 disallow, or subordinate claims of creditors). At the time of this Order, Cooper's
7 appeal regarding the ALJ judgment's validity is still pending before the Ninth Circuit.
8 *See Cooper*, No. 15-73193, ECF No. 1. In its discretion, the Court finds that it is not
9 proper to grant equitable subordination with regard to the ALJ judgment before the
10 Ninth Circuit has resolved Cooper's appeal. Accordingly, the Court denies equitable
11 subordination of Cooper's claim to the Settlement proceeds to satisfy Cooper's debt
12 from the ALJ's judgment without prejudice to the Receiver and SEC raising this issue
13 again after the appeal is resolved, assuming that any proceeds remain and the
14 judgment is affirmed.

15 **IV. CONCLUSION AND ORDER**

16 For the foregoing reasons, the Court **DENIES** Cooper's cross-motion (ECF
17 No. 215) and **DENIES** Cooper's motion to exclude portions of the Receiver's
18 Declaration. (ECF No. 215.).

19 Further, the **GRANTS IN PART AND DENIES IN PART** the Joint Motion
20 (ECF No. 208) as follows.

21 1. The Court **DENIES without prejudice** the Joint Motion's request for
22 set-off and equitable subordination for the ALJ judgment of \$2,595,992.99.

23 2. The Court otherwise **GRANTS** the Joint Motion. (ECF No. 208). The
24 Court:

- 25 a. **ORDERS** that Cooper's outstanding obligation from the Court's
26 judgment against Cooper in the amount of \$584,354.00 (ECF No.
27 151) be set-off against the Settlement proceeds resulting from the
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Receiver Malpractice Action and the Cooper Malpractice Action,
and


- b. **ORDERS** that—to the extent any proceeds remain after the preceding set-off granted by this Order—any remaining proceeds shall be applied to satisfy the amount of the restitution and disgorgement claim identified in the Joint Motion and Receiver’ Declaration.

3. The Receiver is **ORDERED** to hold any proceeds from the Jacko Settlement that remain after application of the proceeds authorized by this Order.

4. The Court **ORDERS** that the Receiver **SHALL NOTIFY** the Court whether proceeds remain after they are applied to satisfy the outstanding judgment in this case and the restitution and disgorgement claim, but shall not identify the amount of the proceeds. **Such notice shall be provided to the Court not later than 14 days after application of the proceeds.**

IT IS SO ORDERED.

DATED: July 17, 2018


Hon. Cynthia Bashant
United States District Judge